



Sakhisizwe Local Municipality
Unaudited Annual financial statements
for the year ended 30 June, 2019
Auditor General
Registered Auditors



Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

General Information

Legal form of entity	The entity functions as a local municipality, established under paragraph 151 of the Constitution of the Republic of South Africa.
Nature of business and principal activities	<p>Sakhisizwe Local Municipality is a South African Category A Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998).</p> <p>The municipality's operations are governed by:</p> <ul style="list-style-type: none">- Municipal Finance Management Act (No 56 of 2003)- Municipal Structures Act (No 117 of 1998)- Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	<p>The following principal activities of the municipality are:</p> <p>Provide democratic activities and accountable government</p> <p>Ensure sustainable service delivery to communities</p> <p>Provide social and economic development</p> <p>Provide basic service to the community</p>
Mayoral committee	
Executive Mayor	Clr B. Ntsere
	Clr K. Faku: Speaker
Councillors	Clr N. Radzilane Ponoshe: Chief Whip
	Clr T. Doda
	Clr N. Stofile : Exco member
	Clr Y. Ndiki
	Clr A. Lande: PR (EFF)
	Clr M. J. Malungisa: PR (DA)
	Clr Z. Mbasane: African National Congress
	Clr M. Ngqayimbana: African National Congress
	Clr T. Hoza: African National Congress
	Clr B. E. Ponoshe: African National Congress
	Clr Z. A. Mose: African National Congress
	Clr A. Sondlo: African National Congress
	Clr N. Magandela: African National Congress
	Clr N.P. Mkati: African National Congress
	Clr M. Mxhonywa
	Headman Mshego: Traditional Council
	Headman Kutuka: Traditional Council
	Headman M. W. Maawu: EQolombeni: Traditional Council
Grading of local authority	Grade 1
Chief Finance Officer (CFO)	P Mahlasela
Accounting Officer	T N Hani
Registered office	Erf 5556 Umthatha Road Cala 5455
Business address	Erf 5556 Umthatha Road Cala 5455

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

General Information

Bankers	First National Bank Elliot
Auditors	Auditor General Registered Auditors
Published	30 November, 2019
Telephone	047 877 5200

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Index

The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 39
Notes to the Unaudited Annual Financial Statements	40 - 80

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

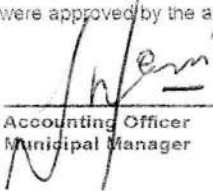
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government and Traditional Affairs for continued funding of operations. The unaudited annual financial statements are prepared on the basis that the municipality is a going concern and that the Sakhisizwe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

The unaudited annual financial statements set out on pages to which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2019 and were signed on its behalf by:


Accounting Officer
Municipal Manager

East London

31 August, 2019

**AUDITOR GENERAL
RECEIVED**

31 AUG 2019

Name:.....

Signature:.....

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June, 2019.

1. Review of activities

Main business and operations

Sakhisizwe Municipality is a grade 1 local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

The Sakhisizwe Municipality includes the following areas:

- Elliot
- Cala

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 15,129,886 (2018: surplus R 12,483,131).

2. Going concern

We draw attention to the fact that at 30 June, 2019, the municipality had an accumulated surplus (deficit) of R 209,396,607 and that the municipality's total liabilities exceed its assets by R 209,396,607.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Bankers

First National Bank, Elliot

5. Auditors

The Auditor General South Africa will continue in office for the next financial period.

6. Public Private Partnership

Council has not entered into any private public partnerships during the financial year.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Position as at 30 June, 2019

Figures in Rand		Note(s)	2019	2018 Restated*
Assets				
Current Assets				
Inventory	<u>30.20</u>	6	579,683	569,940
Trade and other receivables from exchange	<u>31.20.15</u>	7	4,635,874	3,840,420
Receivables from non-exchange transactions	<u>33.20.15</u>	8	10,186,744	7,530,996
VAT receivable	<u>31.20.150</u>	9	528,031	4,421,029
Cash and cash equivalents	<u>32.20</u>	10	12,994,080	720,700
			28,924,412	17,083,085
Non-Current Assets				
Investment property	<u>21.20</u>	3	12,282,339	12,287,151
Property, plant and equipment	<u>20.20</u>	4	223,883,322	216,136,752
			236,165,661	228,423,903
Total Assets			265,090,073	245,506,988
Liabilities				
Current Liabilities				
Finance lease obligation	<u>41.50.25</u>	11	1,116,200	1,279,102
Payables from exchange transactions	<u>51.20.25</u>	14	15,834,047	25,696,247
Consumer deposits	<u>51.10.20</u>	15	84,663	81,079
Employee benefit obligation	<u>43.50.25</u>	5	240,144	524,298
Unspent conditional grants and receipts	<u>43.20.25</u>	12	14,826,742	4,323
Provisions	<u>52.20.25</u>	13	1,360,000	2,500,000
Bank overdraft	<u>32.50</u>	10	38	38
			33,461,834	30,085,087
Non-Current Liabilities				
Finance lease obligation	<u>41.50.20</u>	11	548,333	1,664,330
Employee benefit obligation	<u>43.50.20</u>	5	2,925,677	2,522,768
Provisions	<u>52.20.20</u>	13	18,757,625	16,968,087
			22,231,635	21,155,185
Total Liabilities			55,693,469	51,240,272
Net Assets			209,396,604	194,266,716
Accumulated surplus	<u>40.10</u>		209,396,607	194,266,716

* See Note 34

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	9,745,489	8,719,895
Other income	17	2,759,497	2,109,310
Interest received	18	6,240,711	5,796,748
Total revenue from exchange transactions		18,745,697	16,625,953
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	5,388,681	6,256,968
Transfer revenue			
Government grants & subsidies	20	85,190,648	90,494,252
Total revenue from non-exchange transactions		90,579,329	96,751,220
Total revenue		109,325,026	113,377,173
Expenditure			
Employee related costs	21	(37,915,206)	(37,004,479)
Remuneration of councillors	22	(5,678,381)	(5,627,257)
Depreciation and amortisation	23	(7,996,949)	(6,854,439)
Finance costs	24	(504,058)	(753,814)
Debt Impairment	25	(4,974,241)	(11,432,180)
Bulk purchases	26	(11,579,671)	(11,285,993)
Contracted services	27	(6,210,603)	(9,776,138)
Actuarial losses		(402,438)	(207,400)
General Expenses	28	(18,933,593)	(17,952,342)
Total expenditure		(94,195,140)	(100,894,042)
Surplus for the year		15,129,886	12,483,131

* See Note 34

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	189,070,429	189,070,429
Adjustments		
Prior year adjustment on PPE	(7,360,448)	(7,360,448)
Prior year adjustments on agency fee	73,604	73,604
Balance at 01 July, 2017 as restated*	181,783,585	181,783,585
Changes in net assets		
Surplus for the year	12,483,131	12,483,131
Total changes	12,483,131	12,483,131
Restated* Balance at 01 July, 2018	194,266,721	194,266,721
Changes in net assets		
Surplus for the year	15,129,886	15,129,886
Total changes	15,129,886	15,129,886
Balance at 30 June, 2019	209,396,607	209,396,607

Note 34

* See Note 34

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Ratepayers and other		15,575,967	19,298,026
Government grants		100,013,067	88,645,572
Other receipts		2,763,081	2,110,911
		118,352,115	110,054,509
Payments			
Employee costs		(43,474,832)	(42,399,329)
Suppliers		(29,104,375)	(12,368,994)
Other payments		(22,517,415)	(32,121,959)
		(95,096,622)	(86,890,282)
Net cash flows from operating activities	29	23,255,493	23,164,227
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(15,738,701)	(27,432,315)
Cash flows from financing activities			
Finance lease payments		(1,278,899)	(1,432,485)
Finance costs		(205,219)	(205,219)
Interest income		6,240,711	449,604
Net cash flows from financing activities		4,756,593	(1,188,100)
Net increase/(decrease) in cash and cash equivalents		12,273,385	(5,456,188)
Cash and cash equivalents at the beginning of the year		720,662	6,176,848
Cash and cash equivalents at the end of the year	10	12,994,047	720,660

* See Note 34

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	7,060,761	199,976	7,260,737	9,745,489	2,484,752	A1
Other income - (rollup)	9,342,153	-	9,342,153	2,759,497	(6,582,656)	B1
Interest received - investment	5,789,759	-	5,789,759	6,240,711	450,952	C1

Total revenue from exchange transactions	22,192,673	199,976	22,392,649	18,745,697	(3,646,952)	
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Revenue from non-exchange transactions

Taxation revenue

Property rates	5,721,515	510,384	6,231,899	5,388,681	(843,218)	D1
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Transfer revenue

Government grants & subsidies	65,749,192	-	65,749,192	85,190,648	19,441,456	E1
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Total revenue from non-exchange transactions	71,470,707	510,384	71,981,091	90,579,329	18,598,238	
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Total revenue	93,663,380	710,360	94,373,740	109,325,026	14,951,286	
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Expenditure

Personnel	(44,461,945)	4,153,426	(40,308,519)	(37,915,206)	2,393,313	F1
Remuneration of councillors	(8,722,057)	1,722,968	(6,999,089)	(5,678,381)	1,320,708	G1
Depreciation and amortisation	(10,087,123)	3,290,484	(6,796,639)	(7,996,949)	(1,200,310)	H1
Finance costs	(355,107)	6,122	(348,985)	(504,058)	(155,073)	I1
Debt Impairment	(2,000,025)	-	(2,000,025)	(4,974,241)	(2,974,216)	J1
Bulk purchases	(11,927,971)	100,000	(11,827,971)	(11,579,671)	248,300	K1
Contracted Services	(15,767,143)	4,725,622	(11,041,521)	(6,210,603)	4,830,918	L1
General Expenses	(15,463,561)	2,047,338	(13,416,223)	(18,933,593)	(5,517,370)	M1

Total expenditure	(108,784,932)	16,045,960	(92,738,972)	(93,792,702)	(1,053,730)	
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Operating surplus	(15,121,552)	16,756,320	1,634,768	15,532,324	13,897,556	
Actuarial gains/losses	-	-	-	(402,438)	(402,438)	N1

Surplus before taxation	(15,121,552)	16,756,320	1,634,768	15,129,886	13,495,118	
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Surplus for the year from continuing operations	(15,121,552)	16,756,320	1,634,768	15,129,886	13,495,118	
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Capital expenditure	895,648	-	895,648	-	(895,648)	O1
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(14,225,904)	16,756,320	2,530,416	15,129,886	12,599,470	
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Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.3 Transfer of functions between entities not under common control

Definitions

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.3 Transfer of functions between entities not under common control (continued)

- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

The Municipality measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

As of the acquisition date, the Municipality recognises the identifiable assets acquired and the liabilities assumed. The identifiable assets acquired and liabilities assumed meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date. In addition, the identifiable assets acquired and liabilities assumed are part of what the Municipality and the acquiree (or its former owners) agreed in the binding arrangement.

The acquisition method

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:

- (a) identifying the acquirer;
- (b) determining the acquisition date;
- (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- (d) recognising the difference between (c) and the consideration transferred to the seller.

Subsequent measurement and accounting

In general, a municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Other provisions and estimates

Provision for Landfill Sites:

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

Provision for Staff leave:

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Additional text

Provision for Performance bonuses:

The provision for performance bonuses represents the best estimate of the obligation at yearend and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Pre-paid electricity estimation:

Pre-paid electricity is recognised as income when the electricity is sold.

Componentisation of Infrastructure assets:

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

Contingent liabilities and Contingent assets:

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

Post retirement benefits

The present value of the post retirement obligations and long service awards depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

Investment property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions, specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Land: Indefinite

Buildings: 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Items of property, plant and equipment are initially recognised as assets on acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement – Cost Model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated as it is deemed to have an indefinite useful life.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	30
Plant and machinery	Straight line	5 - 10
Furniture and fixtures	Straight line	5 - 7
Motor vehicles	Straight line	5
Office equipment	Straight line	5 - 7
IT equipment	Straight line	5 - 7
Roads and paving	Straight line	25 - 50
Community assets - Improvements	Straight line	30
Community assets - Recreational Facilities	Straight line	20 - 30
Community assets - Security	Straight line	5
Pedestrian Malls	Straight line	30
Electricity infrastructure	Straight line	15 - 50

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.6 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date. If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 - 10

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.8 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other deposits	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

Statutory receivables can arise from both exchange and non-exchange transactions.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.9 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.10 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventory

Inventory are initially measured at cost except where inventory are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventory are measured at the lower of cost and net realisable value.

Inventory are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.11 Inventory (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition.

The cost of inventory is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventory having a similar nature and use to the municipality.

When inventory are sold, the carrying amounts of those inventory are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventory to net realisable value or current replacement cost and all losses of inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventory, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Designation

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
 - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (b) Internal sources of information
 - Evidence is available of obsolescence or physical damage of an asset.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
 - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Discount rate

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss and is recognised in the Statement of Financial Performance.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - Cessation, or near cessation, of the demand or need for services provided by the asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.
- (b) Internal sources of information
 - Evidence is available of physical damage of an asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
 - A decision to halt the construction of the asset before it is complete or in a usable condition.
 - Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.5.1. Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

1.5.2. Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.5.3. Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

1.5.4. Post Retirement Defined Benefit Medical Obligations:

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25.

The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements.

Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

1.5.5. Post Retirement Defined Benefit Long Service Awards:

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.15 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.17 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service charges are levied in terms of the approved tariffs. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-18 to 30-Jun-21.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.23 Budget information (continued)

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its unaudited annual financial statements.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.26 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

2019

2018

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April, 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 unaudited annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the unaudited annual financial statements.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April, 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 unaudited annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the unaudited annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April, 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 unaudited annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the unaudited annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April, 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 unaudited annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the unaudited annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April, 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 unaudited annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the unaudited annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July, 2019 or later periods:

GRAP 104 (amended): Financial Instruments

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April, 2020.

The municipality has adopted the interpretation for the first time in the 2017/2020 unaudited annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April, 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's unaudited annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual unaudited annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

GRAP 108: Statutory Receivables

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's unaudited annual financial statements.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand 2019 2018

3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	12,325,781	(43,442)	12,282,339	12,325,781	(38,630)	12,287,151

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	12,287,151	(4,812)	12,282,339

Reconciliation of investment property - 2018

	Opening balance	Adjustments	Depreciation	Total
Investment property	33,832,229	(21,734,439)	189,361	12,287,151

Pledged as security

No Investment Properties were pledged as security.

Investment property in the process of being constructed or developed

There is no Investment Property which is in the process of being constructed or developed.

There is no Investment Property that is taking a significantly longer period of time to complete than expected.

There is no Investment Property where construction or development has been halted.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Structures have been erected by private residents on municipal land currently listed as Investment properties in the financial statements. Council is to investigate the matters and make a decision on how the matter will be resolved and whether the properties will be removed from the listing of Investment Properties owned by the Municipality and ownership transferred to the relevant residents.

The value of the Investment Property effected by the erection of private residences is R4'560'000

The market value of Investment Properties are significantly different from their cost disclosed. It is the policy of the municipality to disclose Investment Property on the cost basis, therefore these properties were not revalued to their relevant market values.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	23,466,597	-	23,466,597	23,466,597	-	23,466,597
Buildings	8,334,776	(2,423,710)	5,911,066	8,044,332	(2,156,300)	5,888,032
Plant and machinery	22,171,843	(17,298,679)	4,873,164	22,066,700	(16,668,517)	5,398,183
Furniture and fixtures	1,697,543	(1,258,681)	438,862	3,242,522	(2,333,125)	909,397
Motor vehicles	5,138,799	(3,730,081)	1,408,718	4,441,560	(2,564,451)	1,877,109
Office equipment	245,904	(206,467)	39,437	429,649	(351,994)	77,655
IT equipment	2,055,851	(1,195,575)	860,276	2,374,656	(1,341,039)	1,033,617
Roads & stormwater Infrastructure	177,454,083	(66,760,692)	110,693,391	167,283,784	(72,734,665)	94,549,119
Community	12,499,212	(2,237,240)	10,261,972	9,917,640	(1,821,741)	8,095,899
Electricity Infrastructure	20,393,074	(14,587,712)	5,805,362	9,095,706	(2,979,759)	6,115,947
Landfill sites	2,055,175	(1,389,278)	665,897	2,055,175	(1,322,779)	732,396
Emergency equipment	2,026	(1,822)	204	3,526	(2,851)	675
Hawkers stalls	3,820,892	(130,441)	3,690,451	166,097	(40,068)	126,029
Cemeteries	830,693	(168,712)	661,981	830,771	(141,173)	689,598
Work in Progress	55,105,944	-	55,105,944	67,176,499	-	67,176,499
Total	335,272,412	(111,389,090)	223,883,322	320,595,214	(104,458,462)	216,136,752

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance (carrying value)	Additions	Adjustments/ Disposals/ Transfers/ Take -on	Depreciation	Closing balance (carrying value)
Land	23,466,597	-	-	-	23,466,597
Buildings	5,888,032	-	290,444	(267,410)	5,911,066
Plant and machinery	5,398,183	-	(70,870)	(454,149)	4,873,164
Furniture and fixtures	909,397	-	(261,802)	(208,733)	438,862
Motor vehicles	1,877,109	-	-	(468,391)	1,408,718
Office equipment	77,655	4,667	(20,756)	(22,129)	39,437
IT equipment	1,033,617	45,550	(41,577)	(177,314)	860,276
Roads and Stormwater: Infrastructure	94,549,119	-	21,628,889	(5,484,617)	110,693,391
Community Infrastructure	8,095,899	-	2,581,572	(415,499)	10,261,972
Electricity Infrastructure	6,115,947	-	-	(310,585)	5,805,362
Landfill Sites Infrastructure	732,396	-	-	(66,499)	665,897
Emergency Equipment	675	-	(150)	(321)	204
Taxi Ranks & Hawker Stalls	126,029	3,716,579	(61,784)	(90,373)	3,690,451
Cemetery	689,598	-	-	(27,617)	661,981
Work in Progress	67,176,499	12,060,302	(24,130,857)	-	55,105,944
	216,136,752	15,827,098	(86,891)	(7,993,637)	223,883,322

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance (carrying value)	Additions	Adjustments/ Disposals/ Transfers/ Take -on	Depreciation	Closing balance (carrying value)
Land	883,000	-	22,583,597	-	23,466,597
Buildings	6,945,762	-	(768,785)	(288,945)	5,888,032
Plant and machinery	6,024,439	-	-	(626,256)	5,398,183
Furniture and fixtures	1,085,833	70,341	-	(246,777)	909,397
Motor vehicles	2,530,351	-	-	(653,242)	1,877,109
Office equipment	84,253	19,500	-	(26,098)	77,655
IT equipment	934,880	284,884	-	(186,147)	1,033,617
Roads and Stormwater: Infrastructure	81,684,147	2,070,998	14,822,119	(4,028,145)	94,549,119
Community Infrastructure	8,418,823	-	10,505	(333,429)	8,095,899
Electricity Infrastructure	5,925,024	-	384,312	(193,389)	6,115,947
Landfill Sites Infrastructure	496,747	-	273,677	(38,028)	732,396
Emergency Equipment	998	-	-	(323)	675
Taxi Ranks & Hawker Stalls	142,638	-	-	(16,609)	126,029
Cemetery	717,369	-	(78)	(27,693)	689,598
Work in Progress	65,499,985	27,057,590	(25,381,076)	-	67,176,499
	181,374,249	29,503,313	11,924,271	(6,665,081)	216,136,752

Pledged as security

There are no assets pledged as security.

Other information

Property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity (Carrying amount)

Paving machine	-	-
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Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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4. Property, plant and equipment (continued)

Details of properties

Asset disposals:

During the 2018 financial year, Motor Vehicles to the value of R697'239 and Plant and Equipment to the value of R415'487 were disposed of without Council approval.

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance per asset class

Buildings and Other structures	200,864	453,985
Community Halls	-	49,369
Electricity Reticulation	-	169,069
Roads and Stormwater	126,530	60,755
Sports Fields	4,103	1,342
Furniture and office equipment	-	1,219
Vehicles and Implements	249,648	956,989
Tools and Equipment	10,067	1,483
	591,212	1,694,211

Due to budget constraints there was a reduction in the amount spent on repairs and maintenance for the 2019 year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Employee benefit obligations

Defined benefit plan

Post retirement defined benefit medical aid plan

Defined benefit medical aid plan	2019	2018
Opening balance: 1 July	1,399,198	1,399,612
Interest cost for the year	118,720	117,008
(Income) / Expenditure for the year	(133,383)	(126,161)
Actuarial loss / (gain)	(233,209)	8,739
Total post retirement benefits: 30 June	1,151,326	1,399,198
Less: transfer to current portion	(87,637)	(133,383)
	1,063,689	1,265,815

Post retirement defined benefit long service award

Defined benefit long service awards	2019	2018
Opening balance: 1 July	1,647,868	1,415,049
Contribution for the year	211,156	199,873
Interest cost for the year	121,895	106,333
(Income) / Expenditure for the year	(390,915)	(272,048)
Actuarial loss / (gain)	424,491	198,661
Total long service awards: 30 June	2,014,495	1,647,868
Less: transfer to current portion	(196,517)	(390,915)
	1,817,978	1,256,953

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
5. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit post-retirement medical aid plan	(1,151,326)	(1,399,198)
Present value of the defined benefit long service awards	(2,014,495)	(1,647,868)
	(3,165,821)	(3,047,066)
Non-current liabilities	(2,925,677)	(2,522,768)
Current liabilities	(240,144)	(524,298)
	(3,165,821)	(3,047,066)

Changes in the present value of the non-current employee benefits defined benefit obligation are as follows:

	2019	2018
Opening balance: 1 July	3,047,066	2,814,661
Contribution for the year	211,156	199,873
Interest cost for the year	240,615	223,341
(Income) / Expenditure for the year	(524,298)	(398,209)
Actuarial loss / (gain)	191,282	207,400
Subtotal	3,165,821	3,047,066
Less: transfer to current portion	(284,154)	(524,298)
	2,881,667	2,522,768

Number of eligible employees 2019: 142 (F 67, M 75)

Average annual earnings R175,559

Earnings-weighted average age 45.4

Calculation of actuarial gains and losses

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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5. Employee benefit obligations (continued)

Key assumptions used: Post-retirement health care benefits

Assumptions used at the reporting date:

Discount rates used	8.76 %	8.90 %
Health care cost inflation rate	6.36 %	6.95 %
Net effective discount rate	2.26 %	1.82 %

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 2019: 8.76% (2018: 8.90%) per annum has been used. The corresponding index-linked yield at this term is 2019: 3.24% (2018: 2.80%). These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Expected rate of salary increases:

2018/2019 - Average CPI (Feb 2017 - Jan 2018) + 1 per cent

The three-year Salary and Wage Collective Agreement ends on 30 June 2018.

Number of eligible employees 2019: 146 (2018: 142)

Average annual earnings 2019: R 152,819 (2018: R 175,559)

Earnings-weighted average age 2019: 45.1 (2018: 45.4)

Earnings-weighted average past service 2019: 10.6 (2018: 10.7)

Key assumptions used: Long service bonuses:

Discount rate used	8.08 %	8.37 %
General Salary Inflation (long-term)	5.51 %	6.02 %
Net Effective Discount Rate applied to salary-related Long Service Bonuses	2.44 %	2.22 %

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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5. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost	303,000	264,300
Effect on the aggregate of the interest cost	164,800	146,000

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	2,014,495	1,647,868	1,415,049	1,406,392	1,402,144
Surplus (deficit)	2,014,495	1,647,868	1,415,049	1,406,392	1,402,144
Experience adjustments on plan liabilities	161,761	212,957	26,289	(155,587)	(199,133)

Mortality rates:

The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.

Normal retirement age:

It has been assumed that the normal retirement age of the Sakhisizwe Municipality employees is 60 years for males and 60 years for females.

6. Inventory

Crushed stone - at net realisable value	579,683	569,940
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Inventories recognised as an expense during the year	(9,743)	444,330
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Inventory in the current 2019 financial year had a net increase in net realisable value of R9'742.93 due to an increase in the unit selling price per the municipal tariffs from R210 in 2018 to R235.96 in 2019.

Inventory pledged as security

There was no inventory pledged as security.

7. Trade and other receivables from exchange

Consumer debtors - Electricity	2,591,371	1,882,045
Consumer debtors - Refuse	486,739	566,874
Other trade debtors	37,861	5,859
Other receivables	1,519,903	1,385,642
Receivables from exchange transactions (net of impairment)	4,635,874	3,840,420

Trade and other receivables pledged as security

There were no Trade and other receivables pledged as security.

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Ageing of Receivables from Exchange Transactions:

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
7. Trade and other receivables from exchange (continued)		
Electricity		
Gross balance	5,704,511	4,754,943
Less: Provision for bad debts	(3,113,139)	(2,872,898)
Total (net of impairment)	2,591,372	1,882,045
Electricity: Ageing		
Current (0 - 30 days)	510,989	949,362
30 - 60 days	213,251	311,483
60 - 90 days	138,535	234,978
+ 90 days	1,728,597	386,222
Ageing (net of impairment)	2,591,372	1,882,045
Refuse		
Gross balance	41,935,011	36,781,389
Less: Provision for bad debts	(41,448,978)	(36,214,515)
Total (net of impairment)	486,033	566,874
Refuse: Ageing		
Current (0 - 30 days)	486,033	494,602
30 - 60 days	-	71,564
60 - 90 days	-	708
Ageing (net of impairment)	486,033	566,874
Other trade debtors		
Gross balance	37,861	63,683
Less: Provision for bad debts	-	(57,824)
Total (net of impairment)	37,861	5,859
Other trade debtors: Ageing		
Current (0 - 30 days)	37,861	5,859
Other receivables		
Gross balance	1,728,094	1,385,642
Less: Provision for bad debts	-	-
Total (net of impairment)	1,728,094	1,385,642
Other receivables: Ageing		
Current (0 - 30 days)	1,728,094	1,385,642
Total: Ageing		
Current (0 - 30 days)	2,762,977	2,835,465
30 - 60 days	213,251	383,047
60 - 90 days	138,535	235,686
+ 90 days	1,728,597	386,223
Ageing (net of impairment)	4,843,360	3,840,421

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

7. Trade and other receivables from exchange (continued)

Trade and other receivables past due but not impaired

Accounts receivable were assessed for impairment based on their payment history. Trade receivables past due but not considered for impairment for the current year was 2019: R12'378'747 (2018: R15'016'396.)

Trade and other receivables impaired

As of 30 June, 2019, trade and other receivables of R 47,640,229 (2018: R 42,985,657) were impaired and provided for.

The amount of the provision was R (44,562,119) as of 30 June, 2019 (2018: R 39,145,237).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	39,145,237	36,432,815
Contribution to provision for impairment	5,416,881	2,712,422
Closing balance	44,562,118	39,145,237

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

8. Receivables from non-exchange transactions

Consumer debtors - Rates	10,186,744	7,530,996
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Receivables from non-exchange transactions pledged as security

There were no receivables from non-exchange transactions pledged as security.

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
8. Receivables from non-exchange transactions (continued)		
Rates		
Gross balance	43,654,206	41,367,494
Less: Provision for bad debts	(33,467,462)	(33,910,101)
Total (net of impairment)	10,186,744	7,457,393

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Ageing of Receivables from Non-Exchange Transactions:

Rates: Ageing		
Current (0 - 30 days)	252,177	1,514,086
30 - 60 days	257,050	527,697
60 - 90 days	263,750	502,894
+ 90 days	9,413,767	4,912,716
Ageing (net of impairment)	10,186,744	7,457,393

The entire provision for bad debts relates to the outstanding rates balance.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	33,910,102	25,390,343
Contribution to provision for impairment	(442,640)	8,519,759
Closing balance	33,467,462	33,910,102

9. VAT receivable

VAT	528,031	4,421,029
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VAT is receivable/payable on the cash basis.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	259,595	709,888
Short-term deposits	12,734,447	10,774
Total cash and cash equivalents	12,994,042	720,662
Current assets	12,994,080	720,700
Current liabilities	(38)	(38)
	12,994,042	720,662

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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10. Cash and cash equivalents (continued)

Cash and cash equivalents pledged as collateral

There were no cash and cash equivalents pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2019	30 June, 2018	30 June, 2017	30 June, 2019	30 June, 2018	30 June, 2017
First National Bank - Current Account - 6207-652-3135 (Primary Bank Account)	240,577	670,216	1,849,763	244,508	709,888	6,157,746
MSP - 6207-652-2294 (FNB Investment Account)	-	-	-	(38)	(38)	(38)
MIG - 6207-657-7091 (FNB Investment Account)	11,175,217	820	12,644	11,175,217	820	12,644
Elliot Housing - 6207-745-0056 (FNB Investment Account)	1,125	1,118	1,110	1,125	1,118	1,110
Survey Account - 6207-659-621 (FNB Investment Account)	-	-	-	-	-	-
Extension 15 - 6207-740-8203 (FNB Investment Account)	2,244	2,230	2,213	2,244	2,230	2,236
Extension 13&14 - 6207-745-1278 (FNB Investment Account)	1,014	1,007	1,000	1,014	1,007	1,000
FMG - 6216 - 538 - 9464 (FNB Investment Account)	579	2,167	-	579	2,071	505
Invest: Valuation - 6207-745-0832 (FNB Investment Account)	-	-	-	-	-	-
DME - 6220-960-0776 (FNB Investment Account)	891	891	-	891	891	-
FNB Operating Call Account - 6216-534-1943	8,640	2,675	-	8,640	2,675	1,644
FNB Business NSD call acc 6280-822-2822	1,544,775	-	-	1,544,775	-	-
Total	12,975,062	681,124	1,866,730	12,978,955	720,662	6,176,847

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
11. Finance lease obligation		
Minimum lease payments due		
- within one year	1,223,013	1,529,211
- in second to fifth year inclusive	608,836	1,831,849
- later than five years	-	-
	1,831,849	3,361,060
less: future finance charges	(167,316)	(417,661)
Present value of minimum lease payments	1,664,533	2,943,399

Total Long-term Liabilities - At amortised cost using the effective interest rate method:

Non-current liabilities	548,333	1,664,330
Current liabilities	1,116,200	1,279,102
	1,664,533	2,943,432

It is municipality policy to lease certain motor vehicles and equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

Market risk

Carrying value of assets of the municipality subject to a finance lease:

Description	2019	2018
Plant & Equipment assets	5,138,799	5,549,075

There are no leases secured by property, plant and equipment.

It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The fair value of finance lease liabilities approximates their carrying amounts.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid:

	2019	2018
Finance costs paid	217,121	399,447

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Elliot housing fund	1,110	1,110
Ext 13 & 14 Fund	1,000	1,000
Ext 15 Fund	2,213	2,213
Municipal Infrastructure Grant (MIG)	14,822,419	-
	14,826,742	4,323

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
12. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	4,323	2,085,383
Additions during the year	100,091,000	91,267,940
Income recognition during the year	(85,268,581)	(93,349,000)
	14,826,742	4,323

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

The funds will remain a liability as long as the conditions are still to be met. Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand					2019	2018
12. Unspent conditional grants and receipts (continued)						
National Government Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transferred to revenue	Capital expenditure transferred to revenue	Grants received without conditions attached: Transferred to revenue	Unspent Conditional Grants: 30 June 2019
Equitable Share	-	61,108,000	(61,108,000)	-	-	-
Local Government Financial Management Grant (FMG)	-	1,700,000	(1,700,000)	-	-	-
Municipal Infrastructure Grant (MIG)	-	32,912,000	-	(18,089,581)	-	14,822,419
EPWP Grant	-	1,951,000	(1,951,000)	-	-	-
Subtotal	-	97,671,000	(64,759,000)	(18,089,581)	-	14,822,419
	-	97,671,000	(64,759,000)	(18,089,581)	-	14,822,419
Provincial Government Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transferred to revenue	Capital expenditure transferred to revenue	Grants received without conditions attached: Transferred to revenue	Unspent Conditional Grants: 30 June 2019
EC Department of Transport	-	2,000,000	-	(478,970)	(1,521,030)	-
Dep of Sport Art & Culture (Libraries)	-	420,000	(420,000)	-	-	-
Subtotal	-	2,420,000	(420,000)	(478,970)	(1,521,030)	-
	-	2,420,000	(420,000)	(478,970)	(1,521,030)	-
Other Conditional Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transferred to revenue	Capital expenditure transferred to revenue	Grants received without conditions attached: Transferred to revenue	Unspent Conditional Grants: 30 June 2019
Elliot Housing	-	1,110	-	-	-	1,110
Extension 13 & 14	-	1,000	-	-	-	1,000
Extension 15	-	2,213	-	-	-	2,213
Subtotal	-	4,323	-	-	-	4,323
	-	4,323	-	-	-	4,323
Total Conditional Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transferred to revenue	Capital expenditure transferred to revenue	Grants received without conditions attached: Transferred to revenue	Unspent Conditional Grants: 30 June 2019
Total	4,323	100,091,000	(65,179,000)	(18,568,551)	(1,521,030)	14,826,742

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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13. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	16,968,087	-	1,789,538	18,757,625
Legal proceedings / litigation	2,500,000	(1,140,000)	-	1,360,000
	19,468,087	(1,140,000)	1,789,538	20,117,625

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	15,978,368	989,719	16,968,087
Legal proceedings / litigation	2,500,000	-	2,500,000
	18,478,368	989,719	19,468,087
Non-current liabilities		18,757,625	16,968,087
Current liabilities		1,360,000	2,500,000
		20,117,625	19,468,087

Current provision for litigation:

Cases have been confirmed by the legal advisors of the municipality that there are cases which have a high probability of being settled by the municipality, however, the timing of the verdict is unknown

The decrease in the provision for litigation in 2019 led from cases that were finalised and no longer considered to have a high probability of being settled by the municipality.

Provision for rehabilitation of landfill-sites

JPCE (Pty)Ltd estimated the rehabilitation costs based on the following assumptions in 2018:

It is assumed that the footprints that require rehabilitation as described and indicated in Section 2 is correct and will be verified by the relevant local authority.

- It is assumed that sufficient on-site quantities for the 200mm thick confining layer and 100mm topsoil would be available.
- The rate for the levelling is based on importing the quantities from commercial sources to ensure good quality materials.
- Clay replaced by GCL in design estimate, due to unlikelihood of sufficient quality and quantity clay being available on-site or nearby.

The rate for fencing per metre has increased from R1 010.00 in the 2017 estimate to R1 647.88 in this estimate, based on the latest tendered rates. This has the biggest impact on the site estimate where fencing is still required (Elliot).

Site lifetimes

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

2019

2018

13. Provisions (continued)

Cala

Due to the uncontrolled disposal and scattered waste heaps throughout the site, an accurate determination of remaining available airspace in the developed disposal cell is not possible, as the waste should be moved into the cell and compacted. Based on the previous assessment, the available airspace within the cell should now be depleted if all external waste is moved to within the disposal area. Formal extension of the landfill is required in the form of Class B lined cells in order to extend the operational lifetime. With improved site operation and future assessments, along with a development plan by the Municipality, the expected lifetime of the Cala Landfill can be established, but based on the current condition and available information, there is no remaining airspace..

Elliot

From reported information, the Elliot Landfill has been licensed for closure along with the authorisation to establish a recycling facility and transfer station. The required rehabilitation date is unknown and it was assumed that the site has no remaining lifetime.

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Estimated rehabilitation costs:	Cala	Elliot
Preliminary and General	395,098	1,352,479
Site Clearance and Preparation	29,882	98,850
Storm Water Control Measures	662,102	1,590,390
Capping	1,898,199	6,292,911
Gas Management	-	-
Leachate Management	221,612	425,565
Fencing	10,333	1,252,850
Other:		
Environmental Authorisation (Closure Licence)	438,691	-
Technical ROD	92,644	92,644
Install Groundwater Monitoring Boreholes with lockable caps (includes drilling contractor site establishment)	197,945	169,005
Landscape Architects	123,111	123,111
Water use licence	18,212	18,212
Topographical Survey	12,914	7,586
Contingencies	321,723	1,101,305
Engineering: Professional Fees	265,421	908,576
Site Supervision (Engineer's Representative)	174,664	333,883
Site Supervision (Environmental Control Officer & OHS Agent)	53,413	74,293
Total (Excl. VAT)	4,915,964	13,841,660

Rehabilitation Area (m2): Cala: R9'702; Elliot R32'094

Cost per rehab (m2)	507	431
Estimated construction period (weeks)	10	14

14. Payables from exchange transactions

Trade payables	8,539,678	17,948,138
Payments received in advance: Debtors in credit balance	608,286	1,829,014
Short-term loans	2,000,000	2,000,000
Accrued leave pay	3,422,223	2,702,555
Accrued expenses: Provision 13th cheque	828,770	784,780
Accrued expenses: Workmens compensation	390,410	390,410
Sundry Deposits received: Dam & Hall Deposits	44,680	41,350
	15,834,047	25,696,247

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
14. Payables from exchange transactions (continued)		
Payables are being recognised net of any discounts.		
Not all payables were paid within 30 days as prescribed by the MFMA. This credit period granted was consistent with the terms used in the public sector, through established practices and legislation, therefore discounting of trade and other payables on initial recognition is not deemed necessary.		
The carrying value of trade and other payables approximates its fair value.		
All payables are unsecured.		
Sundry deposits include dam and hall deposits.		
15. Consumer deposits		
Electricity	84,663	81,079
No guarantees are held in lieu of Electricity Deposits		
The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.		
16. Service charges		
Sale of electricity	8,831,974	8,213,682
Solid waste	4,173,824	3,950,716
Free basic services / rebates	(3,260,309)	(3,444,503)
	9,745,489	8,719,895
Rebates comprise the following:		
Rebates		
Electricity	(1,911,094)	(2,054,984)
Refuse removal	(1,349,215)	(1,389,519)
	(3,260,309)	(3,444,503)
17. Other income		
Building Plan, inspection & registration fees	4,407	5,785
Traffic department income	1,662,710	1,462,721
Rates Clearance Certificates	15,936	93,487
Sale of goods and rendering of services	323,375	288,519
Rental income	390,858	88,156
Electricity: Connection & re-connection fees	260	750
Library fees	-	2,474
Commission on collection	71,055	69,973
Trading licences	28,403	22,504
SITE Payments	262,493	74,941
	2,759,497	2,109,310
18. Interest received		
Interest revenue		
Bank	487,168	449,604
Interest charged on trade and other receivables	5,753,543	5,347,144
	6,240,711	5,796,748

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
19. Property rates		
Rates received		
Property rates: Residential, Commercial Property, State	5,388,681	6,256,968

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

The rates rebate for the current financial year is included in rates revenue received.

Valuations

Residential	763,839,732	-
Commercial	198,129,025	-
State	72,418,160	-
Municipal	174,339,859	-
Small holdings and farms	338,197,016	-
Institutional	54,509,000	-
Churches	24,080,000	-
Public Service Infrastructure	203,000	-
State Trust Land	8,154,220	-
Less: Income forgone	16,326,844	-
	1,650,196,856	-

Valuations on land and buildings are performed every four years. The previous valuation roll was implemented 1 July 2013. The latest valuation was performed in the current financial year and implemented to take effect on the 1 July 2018.

A breakdown of the valuation roll was not available for the prior year.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
20. Government grants and subsidies		
Operating grants		
Equitable share	61,108,000	59,593,060
Government grants - Operating	3,993,067	2,953,697
Government grants - Capital	20,089,581	27,947,495
	85,190,648	90,494,252

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Unconditional grants received	63,108,000	59,593,060
Conditional grants received: National	36,563,000	27,947,495
Conditional grants received: Other	420,000	2,953,697
	100,091,000	90,494,252

Included in the unconditional grants received for 2019 was the Equitable Share of R61'108'000 and EC Department of Transport grant for R2'000'000. There were no restricting conditions attached to these grants received and these grants were recognised in full as grant revenue on receipt of the grant.

The municipality does not expect any significant changes to the level of grants.

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Opening balance	-	-
Grants received	61,108,000	57,512,000
Grants transferred	-	2,081,060
Conditions met - Operating	(61,108,000)	(59,593,060)
Conditions met - Capital	-	-
Conditions still to be met	-	-

Elliot housing grant

Balance unspent at beginning of year	1,110	1,110
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Extension 13 & 14

Balance unspent at beginning of year	1,000	1,000
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Extension 15

Balance unspent at beginning of year	2,213	2,213
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Local Government Financial Management Grant (FMG)

Balance unspent at beginning of year	-	-
Current-year receipts	1,700,000	1,700,000
Conditions met - transferred to revenue	(1,700,000)	(1,700,000)
Conditions still to be met	-	-

Health subsidies was used fund primary health care services in the municipal area.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
20. Government grants and subsidies (continued)		
Integrated National Electrification Programme (Eskom) Grant		
Balance unspent at beginning of year	-	2,081,060
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other: grant withheld from equitable share	-	(2,081,060)
Conditions still to be met	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

The grant was withheld and the opening balance of the unspent grant transferred to Equitable Share in 2018

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	-
Current-year receipts	32,912,000	30,948,000
Conditions met - transferred to revenue	(18,089,581)	(30,948,000)
Conditions still to be met	14,822,419	-

The grant was used to upgrade infrastructure in previously disadvantaged areas.

EPWP

Balance unspent at beginning of year	-	-
Current-year receipts	1,951,000	1,108,000
Conditions met - transferred to revenue	(1,951,000)	(1,108,000)
Conditions still to be met	-	-

The grant was used to upgrade electricity infrastructure.

Department of Transport Grant

Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(2,000,000)	-
	-	-

Department of Sports, Arts and Culture (Library)

Balance unspent at beginning of year	-	-
Current-year receipts	420,000	-
Conditions met - transferred to revenue	(420,000)	-
	-	-

There was no grant received for Libraries for the 2018 financial year.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
21. Employee related costs		
Basic	23,480,755	23,168,635
Bonus	1,945,326	1,647,815
Medical aid - company contributions	1,321,922	1,612,887
UIF	207,910	219,310
WCA	-	190,410
SDL	304,625	261,548
Leave pay provision charge	937,760	157,939
Post -employment benefits: Defined benefit medical aid	4,661,684	4,447,527
Travel, motor car, accommodation, subsistence and other allowances	278,434	880,016
Overtime payments	16,938	996,983
Long-service awards	-	6,604
Telephone allowances	88,090	43,508
Travel & other allowances	8,109	-
Contribution Bargaining Council	18,387	14,908
	33,269,940	33,648,090

The above employee related costs excludes the key managers remuneration listed below:

Remuneration of the Managers (summary)

Annual Remuneration	3,849,627	2,917,118
Car Allowance	348,000	197,352
Telephone allowance	-	892
Contributions to UIF, Medical, Pension Funds and Bargaining Council	447,641	241,026
	4,645,268	3,356,388

Municipal Manager is appointed on a 5-year and all other Directors on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period.

No performance assessment was performed for the 2017 and current financial year. A decision was made to not raise a provision for performance bonus for the 2017 and 2018 financial year.

Remuneration of municipal manager

Annual Remuneration	852,159	802,214
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	159,414	125,990
	1,071,573	988,204

Remuneration of chief finance officer

Annual Remuneration	553,088	430,677
Car Allowance	108,000	30,000
Contributions to UIF, Medical and Pension Funds	75,997	83,395
	737,085	544,072

Corporate and human resources (corporate services)

Annual Remuneration	511,273	484,466
Car Allowance	50,000	32,352
Housing & telephone allowances	89,943	892
	651,216	517,710

Remuneration of the Community Services Manager

Annual Remuneration	113,273	-
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Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
21. Employee related costs (continued)		
Car Allowance	10,000	-
Contributions to UIF, Medical and Pension Funds	297	-
	123,570	-

There was no Community Services Manager appointed during the 2018 financial year. During the 2019 financial year the Community Services Manager was employed for the months of September and October only.

Technical Services Manager

Annual Remuneration	1,006,714	952,315
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	1,785	1,785
	1,068,499	1,014,100

IPED Manager

Annual Remuneration	813,119	247,446
Car Allowance	60,000	15,000
Contributions to UIF, Medical and Pension Funds	120,204	29,857
	993,323	292,303

The IPED Manager was appointed during the 2018 financial year. There was no Management salary for IPED for the 2017 financial year.

22. Remuneration of councillors

Executive Major	563,772	657,742
Councillors	4,269,637	4,151,051
Medical, travel & other allowances	844,972	818,464
	5,678,381	5,627,257

In-kind benefits

The Executive Mayor is employed full time and does not receive any in-kind benefits.

23. Depreciation and amortisation

Property, plant and equipment	7,992,137	6,665,078
Investment property	4,812	189,361
	7,996,949	6,854,439

24. Finance costs

Post Employment Health	118,720	117,008
Trade and other payables - interest on overdue accounts	343,052	149,148
Finance leases	217,121	399,447
Capitalised	(174,835)	88,211
	504,058	753,814

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
25. Debt impairment		
Debt impairment	4,974,241	11,432,180
Breakdown of debt impairment (exchange and non-exchange):		
Debt impairment	2019	2018
Trade Receivables from exchange transactions	5,416,882	3,349,285
Trade Receivables from non-exchange transactions	(442,640)	8,519,758
Total Contribution to Debt Impairment recognised in statement of financial performance	4,974,242	11,869,043
Less: Portion Relating to VAT	(2,989,064)	(436,863)
	1,985,178	11,432,180
26. Bulk purchases		
Electricity - Eskom	11,579,671	11,285,993
27. Contracted services		
Presented previously		
Consultants and Professional Services	5,619,391	7,897,784
Contractors	591,212	1,878,354
28. General expenses		
Advertising	231,541	448,525
Auditors remuneration	3,147,441	4,023,144
Bank charges	71,904	71,824
Consumables	542,557	293,685
Catering & Entertainment	35,574	186,302
Rent - office equipment	169,079	305,239
Insurance	1,003,888	151,913
Training	89,805	717,771
Refuse Bags	148,379	57,054
IT expenses	481,621	468,122
Promotions and sponsorships	28,020	568,102
Magazines, books and periodicals	48,690	-
Beautification of towns	481,969	11,140
Fuel and oil	1,018,610	1,434,986
Telephone, postage & fax	1,134,791	1,081,802
Printing and stationery	258,138	386,824
Royalties and license fees	962,718	518,170
Security (Guarding of municipal property)	2,551,623	1,847,490
Subscriptions and membership fees	3,346,881	702,178
Electricity Purchases	576,843	774,223
Travel - local	649,849	1,851,693
Uniforms & Protective Clothing	657,952	283,653
Crusher expenditure	(9,743)	444,331
Remuneration Ward Committees	1,086,000	1,173,000
Tools & Accessories - non-capital	-	1,652
Library week	8,834	30,050
Public Participation	210,629	119,469
	18,933,593	17,952,342

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
29. Cash generated from operations		
Surplus	15,129,886	12,483,131
Adjustments for:		
Depreciation and amortisation	7,996,949	6,854,439
Finance costs (cash)	298,839	548,595
Finance costs (non-cash)	205,219	205,219
Interest income (cash)	(6,240,711)	(449,604)
Interest income (non-cash)	-	(5,347,144)
Debt impairment	4,974,241	11,432,180
Movements in retirement benefit assets and liabilities	118,755	232,405
Movements in provisions	649,538	579,757
Unspent conditional grants and receipts	14,822,419	(1,848,680)
Changes in working capital:		
Inventory	(9,743)	444,331
Trade and other receivables from exchange	(5,696,091)	(7,372,431)
(Increase)/Decrease in Trade and other receivables (non-exchange)	(2,729,351)	2,471,843
Payables from exchange transactions	(10,161,039)	5,139,013
VAT	3,892,998	(2,210,429)
Consumer deposits	3,584	1,602
	23,255,493	23,164,227

30. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	4,635,874	4,635,874
Cash and cash equivalents	244,508	244,508
Short-term Investment Deposits: Call Deposits	12,734,447	12,734,447
	17,614,829	17,614,829

Financial liabilities

	At amortised cost	Total
Trade creditors	8,555,894	8,555,894
Deposits	84,663	84,663
Lease Liability: non-current	548,333	548,333
Lease Liability: current	1,116,200	1,116,200
	10,305,090	10,305,090

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	3,840,420	3,840,420
Cash and cash equivalents	709,888	709,888
Short-term Investment Deposits: Call Deposits	10,774	10,774
	4,561,082	4,561,082

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
30. Financial instruments disclosure (continued)		
Financial liabilities		
	At amortised cost	Total
Trade creditors	17,948,138	17,948,138
Deposits	41,350	41,350
Lease Liability: non-current	1,664,330	1,664,330
Lease Liability: current	1,279,102	1,279,102
	20,932,920	20,932,920
31. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment	14,990,971	6,069,109
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	-
Total capital commitments		
Approved and contracted for	14,990,971	6,069,109
Authorised operational expenditure		
Total commitments		
Total commitments		
Authorised capital expenditure	14,990,971	6,069,109
This committed expenditure will be financed from:		
Source of financing:		
Government Grants	14,990,971	6,069,109

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
32. Contingencies		
Pending litigation exists against the Municipality compromising of the following pending cases:		
Estimated cost of contingent liabilities	2019	2018
Xabana Civils CC	60,000	250,000
• Xabana Civils CC has instituted action in the Grahamstown High Court for payment allegedly due to it		
Bay Drive Trading 151 (Pty) Ltd	60,000	700,000
• Bay Drive Trading 151 (Pty) Ltd has instituted action in the Grahamstown High Court for payment being allegedly due to it relating to a tender for crushed rock. The Municipality has paid the amount of R1 351 512, but there is an amount still in dispute.		
Mr. SM Dalasile	20,000	20,000
• Mr. SM Dalasile instituted action against the Municipality during 2014 for payment alleged due to him for damages suffered when his bull was impounded.		
CNN Development	60,000	300,000
• CNN Development instituted action against the Municipality during 2016 for payment allegedly due to it for services rendered.		
Nomasiyehi Gladies Sonamzi	60,000	150,000
• Nomasiyehi Gladies Sonamzi, widow of Mr Jack, former employee alleges that the Municipality is liable to her the amount of R5 000 000 as it failed to comply with the Occupational Health and Safety Act, 85 of 1993.		
Otia Security Services	-	1,138,326
• Otia Security Services instituted a claim against the municipality for monies allegedly due to it for security services rendered to the Municipality.		
Siyabulela Mponzo	80,000	-
Siyabulela Mponzo launched an application in the High Court to gain access to his personal information and records relating to his employment with the Municipality. The bills and costs are in the process of being taxed where after they will be presented to the Municipality for payment.		
	340,000	2,558,326

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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33. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

Related party transactions

The following purchases were made during the year where Councillors or staff have an interest:

Company name		
Makhesonke M. Trading	-	189,521
Service Capacity: Payroll officer. Relationship: Wife to the supplier		
Blacklives Matters	-	1,247,500
Service Capacity: Internal Auditor. Relationship: Sister to the supplier		
Likhona General Transport & Construction	-	223,970
Service Capacity: Speaker. Relationship: Partnership in Isixhobise Transport and General Trading Primary Co-Op		
	-	1,660,991

There were no related party transactions for the 2019 financial year.

The 2018 balances were still outstanding as creditors as at 30 June 2019. No further expenditure occurred to these related party suppliers for the 2019 financial year.

Related Party Loans:

Since 1 July 2004 loans to councillors and senior management employees are not permitted. No loans have been granted by the municipality prior or subsequent to this date.

Remuneration of management

Executive management

For key management and Councillors remuneration refer to notes 21 & 22

34. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

	Note	Correction of error	Restated
Property plant and equipment		(30,192,426)	(30,192,426)
Investment property		22,831,978	22,831,978
Receivables from exchange transactions		73,604	73,604
Accumulated Surplus		7,286,844	7,286,844
		-	-

Errors

The following prior period errors adjustments occurred:

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

2019

2018

34. Prior-year adjustments (continued)

Receivables from exchange transactions

For the financial year ended 30 June 2015, Impairment of Receivables from exchange transactions was incorrectly not written off to the Chris Hani Agency account when the Sanitation service was transferred. The provision was overstated by R73'603.68, resulting in an understatement of receivables from exchange transactions and an overstatement of net income / expenditure of the same amount.

Property Plant and Equipment & Investment Property

Property, plant and equipment prior to 30 June 2017 was adjusted. An increase in the carrying value of R30'192'426 was implemented. Investment property was adjusted with a net reduction in the carrying value of R21'355'716

A net adjustment was made of a reduction of R7'360'448)

As previously reported in 2018: R235'784'355

Restatement in 2019: (R7'360'448)

Restated balance: R228'423'903

35. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Additional text

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long Term liabilities - Finance Lease Liability	1,223,013	608,836	-	-
Trade and Other Payables	9,429,344	-	-	-
At 30 June, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long Term liabilities - Finance Lease Liability	1,529,211	1,831,849	-	-
Trade and Other Payables	18,774,268	-	-	-

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

2019

2018

35. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies. The municipality only deposits cash with major banks with high quality credit standing and limited exposure to any one counter-party.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers, however customers cannot be refused basic services, therefore in practice this is difficult to apply and this constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but the risk is largely dependent on the political will for execution to control the credit risk.

All rates and services are payable within 30 days from invoice date. Refer to note 14 and 15 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 14 and 15 for balances included in receivables that were re-negotiated for the period under review.

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 14 and 15 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from exchange transactions	-	3,840,420
Cash and Cash Equivalents	-	720,662

Market risk

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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35. Risk management (continued)

Interest rate risk

As the municipality has significant interest-bearing assets, the municipality's income and operating cash flows are substantially dependent of changes in market interest rates.

The municipality analyses its interest rate exposure on a continuous basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

	2019	2018
1 % (2018 - 1%) Increase in interest rates	(338,510)	(336,747)
1% (2018 - 1%) Decrease in interest rates	169,255	168,373

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

36. Going concern

We draw attention to the fact that at 30 June, 2019, the municipality had an accumulated surplus (deficit) of R 209,396,607 and that the municipality's total liabilities exceed its assets by R 209,396,607.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

37. Events after the reporting date

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017.

Traditionally, the municipality used an accounting system in which the municipality transacted and budgeted in 2 segments, namely Item and Municipal Vote. mSCOA was implemented to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities.

In order to shift from item based budgeting to project based budgeting, mSCOA has now added another 5 segments to the reporting/transacting requirement detailed below:

- Project – clarifying the link to the IDP on transaction level
- Funding – defining the funding source that each entry contribute/utilise.
- Region – Identifying the region that derives the benefit associated with the expenditure
- Function – Providing a standard reporting chart throughout the country. Very similar to the former GFS classification.
- Costing – transactional level to improve costing in local government.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
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37. Events after the reporting date (continued)

The municipality started with a process during the 2017 year to align items in the financial statements with the prescribed item Segments in terms of mSCOA.

There was no material effect on the current financial year, however the implementation of mSCOA regulation will have a significant impact on how municipalities budget, transact and report on transaction going forward from 1 July 2017. The municipality will start to transact on the mSCOA vote structure for the 2019 financial year.

The Municipality was subject to numerous strike actions and the suspension of the Municipal Manager, which had an effect on service delivery and the financial administration of the Municipality. This resulted in the delay in the submission of the annual financial statements.

38. Unauthorised expenditure

Opening balance as previously reported	52,133,414	44,454,924
Opening balance as restated	52,133,414	44,454,924
Unauthorised expenditure current year - capital	-	2,494,752
Unauthorised expenditure current year - operating	10,250,907	5,183,738
Closing balance	62,384,321	52,133,414

Unauthorised expenditure for the 2019 financial year was R10'250'907 (2018: R7'670'401)

39. Fruitless and wasteful expenditure

Opening balance as previously reported	963,980	814,832
Opening balance as restated	963,980	814,832
Fruitless and wasteful expenditure current year	343,052	149,148
Written off by council	-	-
Transfer to receivables for recovery	-	-
Closing balance	1,307,032	963,980

Included in the opening balance is an amount identified in 2012 for a contract entered into between MTN Cellular Service Provider and Sakhisizwe Municipality, whereby the municipality stands as surity for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not conducted and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones. The payment to MTN in the current financial year is regarded as fruitless and wasteful expenditure. An amount of R6 000 was overpaid to a supplier due to a casting error on their invoice submitted. An amount of R56 430 was overpaid to the supplier for car hire.

Included in the opening balance is an amount identified in 2011 for licencing & service fees totalling R23,138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2017.

Included in the opening balance, is fruitless expenditure of R25 234 which was incurred in 2014 due to interest incurred on outstanding Eskom and Telkom accounts.

2015: VAT penalties of R20 306 were incurred with SARS.

Fruitless and wasteful expenditure resulting from interest charged on overdue accounts of R149'148 was identified for the 2018 financial year.

Fruitless and wasteful expenditure resulting from interest charged on overdue accounts of R343'052 was identified for the current 2019 financial year

The closing balance has not been condoned as at 30 June 2019.

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
40. Irregular expenditure		
Opening balance	77,601,905	43,572,732
Opening balance as restated	77,601,905	43,572,732
Add: Irregular Expenditure - current year	3,702,668	34,029,173
Closing balance	81,304,573	77,601,905

Expenditure to the value of 2019: R3'702'668 (2018: R34'029'173) was incurred during the current financial year due to non-compliance with the SCM regulations resulting in the irregular expenditure.

The balance of Irregular Expenditure totalling 2019: R81,304,573 (2018: R77'601'905) will be referred to internal audit and MPAC for further investigation.

No recovery, disciplinary steps or criminal proceedings were instituted as a result of irregular expenditure incurred which will be subject the outcome of the investigations.

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

SALGA Contributions:

Opening balance	-	-
Current year subscription / fee	9,000	512,000
Amount paid - current year	-	(512,000)
Balance unpaid (included in creditors)	9,000	-

Material losses

Electricity distribution losses:

Electricity distribution losses	2019	2018
Units purchased (Kwh)	9,091,796	9,559,259
Units lost during distribution (Kwh)	2,586,503	2,047,242
Electricity lost during distribution (R)	3,469,931	2,402,533
Percentage lost during distribution (%)	28	21

Audit fees

Opening balance	-	-
Current year audit fee: External Audit - Auditor-General	3,001,688	3,708,721
Current year audit fee: Audit Committee	145,753	314,423
Amount paid - current year	(1,065,975)	(4,023,144)
Balance unpaid (included in creditors)	2,081,466	-

Balance unpaid as at 30 June 2019 to the Auditor General was R2'081'466 (2018: R 0)

PAYE and UIF

Opening balance	-	-
Current year subscription / fee	4,698,829	4,760,777
Amount paid - current year	(4,698,829)	(4,760,777)
	-	-

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2019	2018
41. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT		
VAT receivable	528,031	4,421,029

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no Councillors with arrear accounts for more than 90 days as at 30 June 2019 and 30 June 2018.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have not been condoned as at 30 June 2019.

Deviations	Single Supplier 2019	Total 2019	Single Supplier 2018	Total 2018
July	-	-	117,367	117,367
August	471,732	471,732	91,109	91,109
September	37,815	37,815	590,486	590,486
October	18,741	18,741	440,414	440,414
November	32,296	32,296	39,579	39,579
December	816,351	816,351	305,481	305,481
January	13,000	13,000	177,400	177,400
February	1,158,039	1,158,039	71,438	71,438
March	540,774	540,774	143,822	143,822
April	449,020	449,020	534,633	534,633
May	15,680	15,680	342,510	342,510
June	162,756	162,756	1,235,294	1,235,294
	3,716,204	3,716,204	4,089,533	4,089,533

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the unaudited annual financial statements.

Other non-compliance (MFMA 125(2)(a))

Section 9(a) of the MFMA requires the accounting officer of a municipality to submit to the relevant provincial treasury and the Auditor General, in writing within 90 days after the municipality has opened a new bank account , the name of the bank where the account has been opened, and the type and number of the account. There were no new accounts opened during the current financial year.

Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by the section.

The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA. The matter has only been addressed after year-end.

42. Budget differences

Material differences between budget and actual amounts

Sakhisizwe Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June, 2019

Notes to the Unaudited Annual Financial Statements

Figures in Rand

2019

2018

42. Budget differences (continued)

Significant variances greater than 10% or R1'000'000 on budget comparison to actuals:

A1: Income from the main streams of service provision increased from billed revenue

B1: Envisaged income from other revenue sources decreased due to community strikes and riots

C1: Received more money from investment call account

E1: By the time adjusted budget was adopted municipality had not received notification for the additional capital grant from MIG and money from department of Transport

F1: Reduction is due to staff resignations and overtime being removed

G1: There were long periods where the full complement of PR councillors was not realised

K1: Electricity purchased increase is based on inflation

L1: Cost cutting measures was implemented

M1: General expenses increased due to riots and community strikes